

MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

September 15, 1998

The Capital Projects and Bond Oversight Committee met on Tuesday, September 15, 1998, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senators Tom Buford and Denny Nunnelle; and Representatives Drew Graham, Paul Marcotte, and Jim Wayne.

Guests: Earl Clemmons, Bill Hintze, and Allen Holt, Governor's Office for Policy and Management; Secretary John McCarty and Commissioner Armond Russ, Finance and Administration Cabinet; Marilyn Eaton-Thomas, Kentucky Infrastructure Authority; Don Mullis, Bart Hardin, and Kim Link, Office of Financial Management and Economic Analysis; Mary Allen and Ken Clevidence, University of Kentucky; Dr. Robert Tarvin, School Facilities Construction Commission; Bill Gatewood and Kay Hines, Natural Resources and Environmental Protection Cabinet; Bob Bender and Hugh Smith, Department of Parks; Jamshid Baradaran and John Nicholson, Kentucky Horse Park; and Kim Burch and Doug Teague, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, Lou Pierce, Jack Affeldt, and Shawn Bowen.

Senator Nunnelle made a motion to approve the minutes of the August 18, 1998 meeting as submitted. The motion was seconded by Representative Graham and passed by voice vote.

Chairman Damron reviewed correspondence items in members' folders which included the Kentucky Lottery Corporation's monthly financial status report for July 1998, and the Parks Capital Maintenance and Renovation Fund Report for Fiscal Year 1998.

Chairman Damron said leases with an annual cost in excess of \$100,000 must be approved by the Committee before execution; and called on Mr. Ken Clevidence, Director, Capital Project Management Division for the University of Kentucky (UK), to discuss a proposed lease modification that will exceed \$100,000 a year. Mr. Clevidence said when the UK Behavioral Science/Kentucky Injury Prevention and Research Center's

lease expired in April 1998, the current lessor, Henry Cravens and Rudy Bicknell, proposed to renew the lease at \$11.50 per square foot (a rate increase of \$.85 per sq. ft). The University received four responses, including one from the existing lessor. Two of the proposals were more expensive than that of the existing landlord, and the third one would have required major renovations. The University decided to continue with the existing lessor at the increased rate of \$11.50 per square foot, or \$93,978 annually.

Mr. Clevidence said after the lease was renewed, the Center realized it needed more space to accommodate new programs and sought to modify the lease to include an additional 2,109 square feet in the same building. The additional square footage will raise the annual cost of the lease to \$118,231.50.

Senator Nunnelley made a motion to approve the UK Behavioral Science/Kentucky Injury Prevention and Research Center's lease modification. The motion was seconded by Representative Graham and passed by voice vote.

Chairman Damron then called on Mr. Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management (GOPM), and Commissioner Armond Russ, Department for Facilities Management, to report on three projects submitted by the Finance and Administration Cabinet.

The first project Mr. Hintze reported was a request by the Kentucky Horse Park for \$50,000 from the Emergency Repair, Maintenance, and Replacement Account. He explained that the Horse Park has experienced problems with its sewage treatment plant, and the State Division of Water has issued a notice of violation. The emergency funds will be used for preliminary investigation and design work for the inflow/infiltration needs.

Chairman Damron asked if the emergency account funds and a plan to start a remediation project will be sufficient to lift the Division of Water's violation. Mr. Hintze said the emergency funds will suffice as an interim action, but more money will have to be spent for a permanent solution to the problem.

In response to another question from Chairman Damron, Mr. Hintze said the funding source to do the actual collection system remediation, in all likelihood, will have to come from a future direct appropriation from the General Assembly. He said they have no other plans at this time.

Chairman Damron said allocations from the emergency account must be reported to the Committee within 30 days, but no action is required.

Chairman Damron asked about the Calumet trophies collection. Mr. Hintze said the parties involved in the acquisition are satisfied, and the Kentucky Horse Park Board was scheduled to review the purchase agreement September 16. He said the Horse Park will now consider how to improve the display of the collection.

Next, Mr. Hintze reported that the Department of Parks plans to consolidate two ongoing projects at the White Hall State Historic Site. He said the White Hall Museum HVAC System project, authorized for \$500,000, and the White Hall Museum Lighting project, authorized for \$180,000, will be combined as one at a total project scope of \$680,000. In response to a question from Chairman Damron, Mr. Hintze said the state should save money by combining the two projects into one. Chairman Damron said no further action was required for this item.

The final project Mr. Hintze discussed was the General Butler State Park New Conference Center project. This project was approved by the 1994 General Assembly at \$94,200 for design; additional funds in the amount of \$2,280,000 were authorized by the 1996 General Assembly for construction. Mr. Hintze said the project has been bid, and an allocation of \$356,130 (15%) from the Capital Construction and Equipment Purchase Contingency Account is needed to meet the low project bid. He said the Department of Parks received seven bids which indicated the true project scope for this project is in excess of the line-item authorization. He explained that the Department of Parks does not want to rebid the project because a lower bid is not guaranteed, and they do not want to downsize the conference center, as it will be a major draw in a major corridor for attracting business to the state.

Mr. Hintze said he realized Committee members were concerned about the adequacy of the contingency account, and noted the contingency account just received a biennial allocation of \$7.5 million. In addition, approximately \$3 million remains in the account from prior authorizations.

Representative Marcotte made a motion to approve the contingency allocation for the General Butler State Park New Conference Center project. The motion was seconded by Senator Buford and passed by voice vote. The revised project scope is \$2,730,330.

Representative Graham inquired about the electrical upgrade project at Fort Boonesborough State Park authorized in the Surplus Expenditure Plan. Commissioner Russ said the project engineer has been selected and they are ready to begin the design phase. Mr. Bob Bender, Department of Parks, said they will attempt to move forward with bids and construction as soon as possible.

Chairman Damron asked about the status of the air quality clean-up at the Cabinet for Human Resources (CHR) Building. Commissioner Russ said a contract for

remediation has been awarded. The employees will continue to work in the building during the clean-up, and will be shifted around as necessary to complete the project. Commissioner Russ said the project will take approximately one year to complete, but by December of this year, the Cabinet will have replaced the carpet and attended to other minor repairs in the building.

In response to another question from Chairman Damron, Commissioner Russ said the Finance Cabinet meets monthly with the CHR Building Committee, and representatives from the consultant firm, Jerry Taylor and Associates, meet with the CHR Building Committee more often. He said the employee survey, conducted to ascertain if the air quality problems had adverse effects on employees, is under analysis and review, and will be shared as soon as it is available.

Senator Buford asked when Surplus Expenditure Plan funds will be available to communities. Mr. Hintze said Memorandums of Understanding (MOU) are being developed between the state and local agencies, and before a check can be issued to local agencies, the MOU has to be reviewed by the legislative Government Services Contract Committee. He said the contract committee recently reviewed more than a dozen projects, and checks for those projects should be issued soon. Within the next six weeks, there should be a tremendous increase in activity for local grant projects included in the Surplus Expenditure Plan and other parts of the 1998-2000 Executive Budget.

Senator Buford commented that some of the cities and fiscal courts expecting money from the Governor's Surplus Expenditure Plan have been waiting several months to receive money, and in the interim, have borrowed money from banks to finance local projects. Mr. Hintze said there are 250 projects in the Surplus Expenditure Plan alone, and the Administration also wants the projects to begin immediately.

Chairman Damron noted that Murray State University has opted to manage its own capital construction program in lieu of management by the Finance Cabinet. He said it was his understanding that once a university does this, the university cannot access the Capital Construction and Equipment Purchase Contingency account or the Emergency Repair, Maintenance, and Replacement Account.

Chairman Damron asked Mr. Hintze how the Finance Cabinet and GOPM will handle construction projects currently in process at Murray State University. Mr. Hintze said the restrictions on the contingency and emergency funds will apply to new projects, but they have not discussed whether current Murray projects now managed by the Finance Cabinet would be eligible for funding from either account. He added that they have not received a request for funds.

In response to a question from Chairman Damron, Mr. Hintze confirmed that universities that choose to manage their own construction projects are supposed to establish their own contingency and emergency funds.

Next, Ms. Marilyn Eaton-Thomas, Kentucky Infrastructure Authority (KIA), presented five new projects. The first project she reported was a request from the city of Paris in Bourbon County for a \$5,943,287 loan from Fund A, the Federally Assisted Wastewater Revolving Loan Fund. The project includes upgrading and expanding the city's current water treatment system, correcting inflow/infiltration problems, constructing a connector from the water treatment plant to the sewer treatment plan, and constructing an interceptor sewer to serve a mobile home park. The loan has an interest rate of 1.8% for a term of 20 years; sewer usage rates will increase from \$16.94 per month to \$22.92 per month. In December 1997, the Committee approved a \$402,667 loan for planning and design of the project. The total cost of the project is estimated to be \$8,252,119.

Chairman Damron asked how the increased sewer usage rates compare to rates charged in surrounding areas. Ms. Eaton-Thomas said according to the Bluegrass Area Development District's annual survey of rates in its 18-county area, the rates for the city of Paris are above average. In response to another question from Chairman Damron, Ms. Eaton-Thomas said the city will switch from charges based on a sliding scale to a flat rate.

Senator Nunnelley made a motion to approve the KIA Fund A loan for the city of Paris. The motion was seconded by Representative Marcotte and passed by voice vote.

Ms. Eaton-Thomas next discussed a Fund B1 Infrastructure Revolving Fund grant for \$4,000,000 for the city of Richmond in Madison County. The proceeds from the grant will be used to construct a new wastewater treatment plant and gravity sewer lines. Ms. Eaton-Thomas said the project was reviewed by the KIA Board to establish a project budget and to review the city's finances to ensure it can support the operations and maintenance costs for the new project. Ms. Eaton-Thomas said the city of Richmond is also receiving a \$1,000,000 grant from the Kentucky Transportation Cabinet and a \$3,400,000 loan from the Kentucky Economic Development Finance Authority (KEDFA). The total project scope is \$8,400,000.

In response to questions from Chairman Damron, Ms. Eaton-Thomas said for a city to qualify for a KEDFA loan, a project must create jobs and the city must be able to repay the loan. Mr. Don Mullis, Executive Director, Office of Financial Management and Economic Analysis (OFMEA), added that interest rates for these kinds of projects are based on a sliding scale, and Ms. Eaton-Thomas said KIA's review of this project assumed a 6% interest rate for the KEDFA loan.

Chairman Damron said no action was required for this project as it was a line-item in the 1998-2000 Executive Budget.

Ms. Eaton-Thomas then discussed a \$4,000,000 Fund C Governmental Agencies Program loan for the Webster County Water District. The water district serves over 1,200 retail customers and provides wholesale water to the cities of Clay, Dixon, and Slaughters. The water district has exhausted its current raw water source - ground water wells, and plans to construct a raw water intake structure, install a raw water transmission line, and expand and renovate the existing water treatment plant.

Ms. Eaton-Thomas said Webster County's water rates currently average \$32.65 per month, but with the new KIA loan, rates will rise to \$41 per month. The Webster County Water District has undergone the required public hearings and has assured KIA they want the loan, even though it will require the large increase in water usage rates. The interest rate is assumed to be 7% for a term of 30 years, and the total project scope is \$6,165,911.

Chairman Damron asked how the money will be generated for this loan and why the interest rate is 7%. Ms. Eaton-Thomas explained that KIA will sell revenue bonds to support the project, and Webster County Water District will be responsible for paying the debt service on the bonds. She said the bonds will not be sold until the project is complete, but the 7% estimated rate is conservative and represents a "worse case scenario".

Mr. Mullis said the interest costs are a function of the market at the time the bonds are actually marketed. If the bonds were issued right now under KIA, he said the rate may be closer to 5%. He said Webster County Water District will get every advantage of the market rate that KIA's name and credit will provide.

In response to another question from Chairman Damron, Ms. Eaton-Thomas said KIA will sell notes to provide the interim financing for this project. Mr. Mullis added that KIA has a revolving note program very much like the Kentucky Asset/Liability Commission note program, and the interest rate currently ranges from 3.35% to 3.50%.

In response to a question from Chairman Damron, Ms. Eaton-Thomas said Webster County will have a commitment from KIA on the interim financing, but they will have the option to choose some other form of permanent financing. She said the water district had considered using the private market or the USDA Rural Development Program, but decided against it because of stiff competition. She added that the water district is now under a boil water notice and needs to get started on the project.

Representative Marcotte made a motion to approve the \$4,000,000 Fund C Governmental Agencies Program loan for the Webster County Water District. The motion was seconded by Representative Wayne and passed by voice vote.

Next, Ms. Eaton-Thomas discussed a Fund A loan (Federally-Assisted Wastewater Revolving Loan Fund) amendment for the city of Grayson in Carter County. The Committee approved this project in August 1996 for \$2,975,557, and the city is now requesting an additional \$449,010 to dewater an area of the construction site containing quicksand.

Representative Marcotte made a motion to approve the Fund A loan amendment for the city of Grayson. The motion was seconded by Senator Nunnelley and passed by voice vote. The revised KIA loan amount is \$3,424,567.

The last project Ms. Eaton-Thomas reported was a reapproval of a \$528,000 Fund B loan (Infrastructure Revolving Loan Fund) for the Hickory Water District in Graves County. The project includes the construction of a 500,000 gallon water storage tank in an industrial park and various improvements to the water system to accommodate Remington Arms, a local firearms manufacturer. The original loan commitment and a six-month extension has expired. Ms. Eaton-Thomas said the Hickory Water District is now ready to start the project, and KIA is recommending reapproval of the loan.

Senator Nunnelley made a motion to reapprove the Fund B loan for the Hickory Water District. The motion was seconded by Representative Graham and passed by voice vote. Representative Wayne abstained from the vote.

Chairman Damron said status reports for KIA Funds A, B, C, and E were included in members' folders.

In response to questions from Chairman Damron, Ms. Eaton-Thomas said KIA will have approximately \$15 million available for Fund F loans, the interest rates will be 1.8% (for hardships) and 3.8%, and loans will be limited to \$1.5 million.

Next, Mr. Mullis discussed four new bond issues for the Kentucky Housing Corporation (KHC). The first bond issue reported was KHC Revenue Bonds, 1998 Series D. Mr. Mullis said proceeds from the Series D bond issue, approximately \$8,757,260, will be used to fund multi-family housing developments in Russell, Mt. Washington, Hillview, Frankfort, Booneville, and Taylorsville. The estimated interest rate is 5.31%, the final maturity date is July 1, 2030, and the bonds will be subject to alternative minimum tax (AMT) provisions of the IRS.

Mr. Mullis then discussed KHC Revenue Bonds, 1998 Series E (AMT) and F (non-AMT). He said gross proceeds from these issues, approximately \$70,855,000, will be used to provide financing for first time low-to-moderate income Kentucky homebuyers. The estimated interest rate is 5.30% and the final maturity date is July 1, 2030.

The final bond issue Mr. Mullis discussed was KHC Taxable Refunding Revenue Bonds, 1998 Series G, a refunding of 1988 Series A and B Housing Revenue Bonds. The estimated gross proceeds are \$29,795,000; the estimated present value savings are \$755,374; and the final maturity date is July 1, 2017.

For each of the KHC bond issues, the sale date is October 8, 1998, and the bonds are rated Aaa by Moody's and AAA by Standard & Poor's. Each bond issue is a negotiated sale with Kutak Rock as bond counsel; Merrill Lynch & Company as underwriter; Peck, Shaffer & Williams as underwriter's counsel; and PNC Bank, Kentucky as trustee.

Representative Wayne made a motion to approve KHC Housing Revenue Bonds, 1998 Series D, E, F, and G. The motion was seconded by Senator Buford and passed by voice vote.

Mr. Mullis reported on the recent issue of the Kentucky Asset/Liability Commission (KALC) Project Notes, Agency Fund Series Program. These notes will provide initial financing for recently authorized and agency-funded projects for state universities, the Kentucky Higher Education Assistance Authority, and the Kentucky River Authority. The entire program was authorized at approximately \$98 million, but since these projects are to be initially financed with notes, using a letter of credit for security, the Commission has authorized the sizing of the notes for up to \$110 million to cover all additional costs that might be required. The initial transaction is being done in two parts. Mr. Mullis said the first part was sold and closed about two weeks ago, and the second would close tomorrow. He explained that the notes were structured this way for tax reasons. The initial notes will be issued tax-exempt. However, the second part, Series B will ultimately be refunded on a taxable basis because those notes are for sky boxes at the University of Kentucky Commonwealth Stadium expansion. This is considered, for tax purposes, a private use, and that particular project will ultimately require the issuance of taxable bonds.

Mr. Mullis said the note transactions are covered by a letter of credit from Commerzbank. Commerzbank will approve the program and provide letters of credit coverage as each additional piece of the program is taken into the market. Mr. Mullis explained this means that the state agency funding these projects will only pay for what

they use. He said that the University of Kentucky is very pleased with the stadium project, and they expect to be finished within a year.

In response to a question from Rep. Wayne about the UK stadium project, Mr. Mullis said the university will be responsible for the debt service. It will be a general pledge of their revenues, but the actual source of revenue will be the additional moneys accruing to the university from the sale of tickets and revenues on the rental of the boxes.

Chairman Damron said the issue has already been reviewed and approved by the Committee before the bonds were sold, and no further action is required.

Mr. Mullis next discussed correspondence from Finance Secretary McCarty concerning the emergency appointment of an underwriter and bond counsel for the refunding of Projects 54 and 56. For economic reasons, these two refundings were removed from Project 60, approved by the Committee in March 1998, because they would not reach the savings levels OFMEA deemed appropriate. Mr. Mullis explained that the State Property and Buildings Commission (SP&BC) has established a minimum savings level of 4% for refundings of this type, and Projects 54 and 56 refundings could not meet that level at the time Project 60 went to market. Now, however, OFMEA hopes to do the refundings within the next two or three weeks if municipal market rates come down. The refunding may accrue as much as 5% in savings, which could exceed a \$1 million. Since there is not sufficient time for the statutorily prescribed selection process for underwriter and bond counsel, Secretary McCarty declared an emergency and the underwriter, Merrill Lynch, and the bond counsel, Chapman and Cutter, used for Project 60, have been selected for the refunding of Projects 54 and 56. Mr. Mullis said the compensation for the underwriter and for the bond counsel is exactly the same as the original transaction (Project 60) - \$1.14 per bond for the underwriter and \$.60 per bond for the bond counsel.

Chairman Damron explained that this item was not included in the Committee mailout, but he agreed to put it on today's agenda. He said OFMEA is required to report such emergency certifications within 30 days of the selection process, and although no further Committee action is required, the Committee may want to take formal action. Mr. Mullis said he would appreciate the Committee's approval and endorsement of the process.

Senator Buford asked what projects are included in this refunding bond issue. Mr. Mullis responded that Projects 54 and 56 covered a multitude of governmental projects, such as economic development projects. He said he would get Senator Buford a project list. Chairman Damron added this refunding is a refinancing of debt that is currently outstanding.

Representative Graham made a motion to approve the emergency appointment of an underwriter and bond counsel for the SP&BC refunding of Projects 54 and 56. The motion was seconded by Senator Nunnelley and passed by voice vote.

Chairman Damron then asked Representative Graham to take over as chair for the next two agenda items because of a potential conflict of interest.

Representative Graham called on Mr. Mullis to report nine new SFCC bond issues, none which required a tax increase: Anderson Co. - \$1,785,000 to complete an elementary school addition and \$2,250,000 to refund 1979, 1987, 1989, and 1991 bonds; Augusta Ind. (Bracken Co.) - \$448,000 to complete improvements to a high school; Clinton Co. - \$4,285,000 to partially refund 1992 bonds; Cloverport Ind. (Breckinridge Co.) - \$425,000 to build a new school library; Marshall Co. - \$4,570,000 to refund 1991 bonds; Montgomery Co. - \$700,000 to complete construction of a new elementary school; and Spencer Co. - \$490,000 to refund 1988 bonds and \$270,000 to refund 1990 bonds.

Senator Buford made a motion to approve the school bond issues with SFCC participation in debt service. The motion was seconded by Senator Nunnelley and passed by voice vote. Chairman Damron abstained from the vote, citing a possible conflict of interest.

Representative Graham said there were six new school district bond issues with locally-funded debt service, none which required a tax increase. Local school bond issues were reported for the following school districts: Barren Co. - \$3,845,000 for additions and renovations to an elementary school; Edmonson Co. - \$303,000 for energy conservation improvements to the high school; Frankfort Ind. (Franklin Co.) - \$205,000 for energy conservation improvements; Henderson Co. - \$3,700,000 for additions and renovations to an elementary school; Union Co. - \$1,115,000 for districtwide energy conservation improvements; and Williamstown Ind. (Grant Co.) - \$335,000 for districtwide energy conservation improvements.

Representative Graham said no action was required on school bond issues that are 100% locally-funded.

Chairman Damron said enclosed in members' folders was the updated weekly and monthly debt issuance calendar; the Capital Projects Newsletter; and a staff report on the Program Review and Investigations Committee meeting relating to the state capital construction program.

Chairman Damron said the Committee recently received a letter from David Bratcher, Director, Grant Programs Division, Economic Development Cabinet, in

response to a request made by Representative Wayne in November of 1997 for an update on jobs created by the Economic Development Bond program. Chairman Damron said Mr. Bratcher indicated the report is now complete and once it has been reviewed by the Kentucky Economic Development Finance Authority, the report will be transmitted to the Committee prior to the October meeting.

Chairman Damron said the next meeting is scheduled for October 20, 1998, at 1:00 p.m. He suggested the Committee may want to hold an out of town meeting, in conjunction with a site visit to a project the Committee has reviewed.

With there being no further business, Representative Marcotte made a motion to adjourn the meeting. The motion was seconded and passed by voice vote. The meeting adjourned at 2:05 p.m.